

**CITY OF SEATTLE
SOLID WASTE UTILITY
King County, Washington
Special Audit
February 1, 1991 Through March 31, 1993**

Schedule Of Findings

1. Public Funds Were Misappropriated

Our audit of the financial records of the City of Seattle Solid Waste Transfer Stations revealed that at least \$297,206 in public funds was misappropriated by five cashiers during the period February 1, 1991, through March 31, 1993. There were no federal funds involved in this case. These funds were misappropriated as described below.

A computer cash register system was in use where two cash registers were connected to a network server. The network server could only interface with one cash register at a time. When the network server was busy saving a transaction generated from one cash register, a transaction could be processed on the other cash register and the record of that transaction deleted while the network server was busy. The cash receipts from deleted transactions were then stolen.

This loss was not immediately reported to the Office of State Auditor because city management investigating the misappropriation was unaware of this reporting requirement. Reorganizations within the city interrupted the reporting system previously in place.

RCW 42.20.070 states:

Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town or any school, diking, drainage, or irrigation district who)

(1) Shall appropriate to his own use or the use of any person not entitled thereto, without authority of law, any money so received by him as such officer or otherwise; or

(2) Shall knowingly keep any false account, or make any false entry or erasure in any account of or relating to any money so received by him; or

(3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or

(4) Shall wilfully omit or refuse to pay over to the state, its

officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him as such officer when it is a duty imposed upon him by law to pay over and account for the same, shall be punished by imprisonment in the state penitentiary for not more than fifteen years.

State of Washington, Office of State Auditor Bulletin 007 states in part:

In the event of a suspected loss of public funds, it is important that correct procedures be followed in order to minimize the loss, assist investigation, prevent improper settlements, expedite bond claims and protect employees from false accusations.

The chief executive officer or chief financial officer should immediately report the suspected loss to the State Auditor's . . . (office).

The following internal control weakness allowed this misappropriation of public funds to occur and not be detected in a timely manner.

Cash receipt transactions could be processed and a customer receipt generated prior to the transaction being saved on a network server. The transaction could then be deleted with no record retained.

The Solid Waste Utility corrected the above weakness by installing a new computerized cashing system with greatly enhanced security controls. This system monitors and records all activity on the system, requires user identification and passwords, and does not permit the deletion of system activity records.

We recommend the City of Seattle seek recovery of the misappropriated funds from the cashiers and/or the insurance bonding company. We further recommend the Washington State Office of the Attorney General and the King County Prosecuting Attorney continue to take whatever action is deemed necessary under the circumstances. Any compromise of settlement of this claim must be approved in writing by the Attorney General and State Auditor.

Bond coverage for City of Seattle employees is as follows:

Hartford Insurance Co.
Public Employees Blanket Dishonesty Bond
PEB-JK9393
\$1,000,000 (with \$10,000 deductible provision)
July 1, 1991, until canceled

We also recommend the City of Seattle design and implement a system for promptly notifying the Office of State Auditor of any suspected loss of public funds.